

Financial plan sensitivity and risk analysis (section 25 assessment and report)

The Local Government Act 2003 (section 25) requires that when a local authority is agreeing its annual budget and precept, the Chief Finance Officer must report to it on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

In expressing this opinion the Chief Finance Officer has considered the financial management arrangements that are in place, the level of reserves, the budget assumptions, the overall financial and economic environment, the financial risks facing the Council and its overall financial standing.

The key long term driver is preserving the Council's financial resilience within the financial strategy and the medium term financial plan.

The Council has had to operate within a rolling period of uncertainty whereby core funding has been cut for a number of years creating greater pressure to deliver services and core spending power (even with the introduction of the 3% guarantee grant (now increased to 4%)) has not kept pace with inflation. We are operating with one year settlements from Government rather than multi year settlements which makes future financial planning more difficult.

We have faced two years of higher than anticipated inflation and interest rates together with potential for a recession and a further time ahead where households will struggle to pay their bills. This creates uncertainty in terms of growth, economic activity, bad debts and arrears. It is anticipated that inflation will continue to fall and interest rates will then fall as a result.

Our financial management has historically been good and we have reacted to situations appropriately including the impacts of Covid and recovering income streams that were badly affected by the lockdowns etc.

Our governance arrangements require us to have good systems of internal control to manage risk including financial controls and we have budgets and a financial plan that directs financial resources to priorities within our Council Strategy including the housing functions and the delivery of affordable housing, climate change and jobs. We continue to deliver homes to rent and have carried out significant work on our council buildings to deliver on our decarbonisation objective and have a provision in our capital programme to provide employment units. An economic development plan aids local businesses and the local economy, together with a Jobs Plan that was implemented in 2021.

We have to comply with a number of Codes including the Accounting Code of Practice issued by CIPFA annually to guide how we report our financial results and the Prudential Code which covers how we deal with our treasury management activities and setting prudential indicators including the level of borrowing. We comply with all of the relevant Codes.

Robustness of estimates:

We assume that there will continue to be inflationary costs to our services and have assumed an average 4% increase in salaries in 2024/25 and 3% thereafter. We have built in inflation in other areas of the budget to cover major contract cost changes as appropriate including, building cleansing, grounds maintenance, insurance, information technology etc. We have also included inflation for other costs such as utility costs and business rates. As part of the process to identify savings Service Managers have had some budget headings frozen at existing levels for 2024/25.

On the whole we anticipate income activity will be maintained at levels similar to 2023/24 with some small growth in certain areas together with the impact of the increase in the charge for the service.

Income from our treasury management activity is aligned with projections suggested on changes to interest rates together with the cash flow planning we determine for major changes in Council spends and incomes.

Our capital receipt assumptions are based partly upon historic data to inform future projections and arrangements that are currently under negotiation or agreed.

We have assumed that New Homes Bonus will continue past its one year extension from Government of 2024/25 on the basis that it will be paid until an assumed reset of core funding from Government in 2026/27. This seems reasonable based upon past events and the assumption is also for the 3% (now 4% for 2024/25) guarantee grant to continue until 2026/27 to ensure that there is no overall loss of income to the Council.

Any short term one off grants have traditionally been accepted and implemented. We will consider these on merit if and when they arise and determine whether they can be implemented based upon available resources.

The savings required to eliminate our revenue budget overspends within our MTFP are detailed in appendix 4. These are currently funded by a Funding Earmarked Reserve that had a balance of £12 million at the start of the 2023/24 financial year and even with no further action can be utilised to manage the deficits anticipated up to the end of 2026/27. It is considered likely that the work identified in the budget reports for Modern 25 and continuous review of Business Plans will generate savings that are currently not shown in the MTFP thus reducing the use of the Funding Earmarked Reserve.

The Modern 25 agenda looks at a savings plan which delivers ongoing annual savings totalling £2.6 million including a revision of our organisational structure to deliver staff savings, a review of our assets and how they are used and other service activity savings options. The savings 'drops' are mapped out, reported and updated regularly and managed by the Business Transformation Team. Business Plan updates will also need to consider additional savings options.

Future work will be explored through an Overview & Scrutiny Committee task and finish group to investigate savings areas highlighted within the MTFP and other possible areas for review. This may include the current minimum return of 1% on business cases and how we ensure the business cases are robust and all risks are adequately explored and verified.

Other financial risks include whether we face a reduction in our overall income e.g., from fees and charges and property. Calculations shown below will confirm how this meets the adequacy of reserves. The risks are mitigated by the spread of activities we have and adequate bad debt provisions for areas of debt that are considered higher risk or volatile and the evidence we have around historic data to determine likely changes to these numbers.

We currently have no external borrowing but ensure that all Minimum Revenue Provision (MRP) for completed projects meets the requirements of the Prudential Code and is provided for and all business cases presented include provisions for interest and MRP payable on projects being delivered. We profile the debt on a range of maturity dates which ensures no exposure to one area of interest rate change.

Adequacy of reserves:

With inflation having eroded spending power the general revenue reserve balance is proposed to increase from £2.3 million to £2.4 million.

Earmarked reserves – as indicated above £12 million is held in a funding reserve at the start of the 2023/24 financial year. The use of this reserve will be to fund predicted budget gaps for future

years with £10.2 million likely to be used for the current and next three full financial years (2023/24 to 2026/27). This usage will be reduced by savings from Modern 25 and other processes.

Other earmarked reserves – we have £9.9 million of other earmarked reserves which are held to cover grants received which haven't been spent, carry forwards, revenue contributions to capital etc. These are held for specific purposes/projects/spends however some could be reallocated to other funds if necessary.

Capital reserves – at the start of 2023/24 we had £4.5 million of capital receipts and £19.4 million capital grants unapplied. These are utilised throughout the capital programme with capital receipts reducing to £1.1 million by the end of 2026/27 and capital grants unapplied being £2.1 million at the end of that year.

Unusable reserves – we have a further £76.2 million of unusable reserves at the start of the 2023/24 financial year. These are not available for use as cover items such as the revaluation reserve for property valuations and the capital adjustment account which absorbs timing differences arising for the consumption of non current assets and for financing the acquisition, construction or additions to those assets under statutory provisions.

CIPFA provide a Resilience Index which compares our financial data with our nearest neighbours. Most of our indicators in terms of financial stress are in the lower risk category which include external debt, interest payable and sustainability of reserves. Fees and charges as a ratio to service expenditure is still low but closer to medium risk. We have made some changes here including the mid year review to assist with increasing the income we get from fees and charges and will pursue higher increases year on year where appropriate. The one measure closest to medium risk is the level of overall reserves. This can be broken down between earmarked reserves and unallocated reserves. The earmarked reserves are closer to lower risk but unallocated reserves (our general reserve balance) is just above medium risk. We are proposing increasing our general reserve balance from £2.3 million to £2.4 million which will assist with reducing the risk on this measure.

Conclusion:

The main financial risks are around revisions to local authority funding - reductions likely for future years and non delivery of required savings. These are described below together with potential adverse changes in other income and expenditure streams. The risks are mitigated by careful use of earmarked funding reserves, the Modern 25 agenda, action to act more commercially, monthly monitoring of our financial position and reporting of variances.

1. The budget assumes £16.4 million of income from sales, fees and charges, recycling and property for 2024/25. Whilst this assumption is realistic for the income it includes significant rental income from Market Walk and there is always the risk that income could fall further or be less than anticipated. **A drop in income as compared to the net budget of around 10% would result in a loss of £1,644,000.**
2. The small provision of 2.1% which has traditionally been made for potential losses in council tax collection has been maintained in 2024/25 to reflect continuing economic circumstances which is likely to be more difficult next year with the estimated overall increase of 5.1% in council tax.
3. Inflation on costs is being partly managed through energy reduction measures and cost effective procurement. However significant inflationary pressures have resulted in an allowance of £445,000 for inflation (excluding pay award provision) which is included in the budget and is considered reasonable.
4. Known liabilities have been provided for and there are no significant outstanding claims.

5. The final settlement confirmed only one years figures for New Homes Bonus and only for 2024/25.
6. Business rates retention income from rates growth above the baseline and some pooling gain has been assumed for part of the four plan years. This is reasonable being largely based on the special grants we get to cover the cost to Teignbridge of government schemes to help businesses and tempered by ongoing uncertainties in relation to projections in growth. Potential business rates reset may arise in 2026/27 but depends on Government funding reforms. A realistic provision of £474,000 has been made for business rates appeals next year. We are only protected against any rates downturn or further rates appeals by a relatively low safety net and **a 10% reduction in funding would be £643,000.**
7. New homes bonus has traditionally been estimated on the extra homes built per year and a 4 year payment. In addition a 0.4% baseline deduction reduces the figure year on year. The figure of £0.6 million has been used in the budget as legacy payments are eliminated from the funding stream. The Government has intimated eliminating New Homes Bonus and replacing with an alternative form of housing funding. No details of what the changes might be are available at present or whether this will actually take place however there are no assumptions built into receiving such alternative funding in 2026/27 and thereafter.
8. The capital programme is financed over the next three years using realistic estimates of capital receipts, grants, prudential borrowing and other funding including developer contributions such as Section 106 and community infrastructure levy (CIL). Town centre regeneration in the form of major refurbishment of the Market Hall and improvements to Queen Street in Newton Abbot will be funded from prudential borrowing and government Future High Streets grant of £5.5 million during 2023/24 and 2024/25. Other co-funding includes developer and external contributions. The rate of inflation on construction projects has risen steeply over recent months due to a combination of issues. The current economic climate also has the potential to affect the future budgetary impacts of these projects, the business cases for which rely on forecasts for rental income. Business cases are compiled with the benefit of expert external advice where appropriate and are reviewed regularly to assess the impact of the economic environment on capital and revenue costs. The main provision for social and affordable housing – the Teignbridge 100 is forecast to be funded from a combination of government grant, capital receipts, developer contributions and borrowing. The business case for the current Forde House decarbonisation and agile working project is dependent on rental income from letting out space at Forde House. The Broadmeadow Sports Centre Decarbonisation Phase 2 and refurbishment at a cost of £3.7 million is funded from a mixture of government grant, capital receipts, revenue savings and prudential borrowing. Future projects relating to the Carbon Action Plan and a provision for employment site investment are also to be funded through prudential borrowing. Future projects include a provision for improvements to waste management infrastructure, for which funding is as yet unidentified. Any project which is funded through borrowing is subject to interest rate risk. Further detail on how this risk is managed can be found in Appendix 12 (Treasury Management Strategy) and Appendix 12a (Capital Strategy). The next phase of Teignbridge 100 projects, future carbon reduction schemes and the employment site provision are indicative only and not being approved in this budget. Individual business cases will be brought to members for consideration as they are developed.

Summary and call to action

Significant risks are identified above with a potential total adverse revenue effect for 2024/25 of £2.3 million. However, revenue reserves are planned to be 12.7% of the net revenue budget or £2.4 million at the end of 2024/25. The Funding Reserve also has a significant balance. It is anticipated, dependent upon progress of the town centre developments and the Teignbridge 100, that external borrowing will be required during 2026/27, possibly the end of 2025/26. Slippage in the capital programme can mean usable reserves stay higher for longer, delaying the need to

borrow. Such financing is costed within the budget estimates and in line with the requirements of the Treasury Management Strategy and Prudential Indicators. I therefore confirm the robustness of the budget and the adequacy of the reserves.

The specific actions required to support this assessment is to pursue the savings plan as outlined in the Modern 25 proposals and continued investigation of savings in other areas where possible.

Martin Flitcroft, Chief Finance Officer

27 February 2024